

VZCZCXRO6548
RR RUEHCHI RUEHDT RUEHHM
DE RUEHJA #2872 2840756
ZNR UUUUU ZZH
R 110756Z OCT 07
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC 6649
RHMFIUU/DEPT OF ENERGY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
INFO RUEHKS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHKO/AMEMBASSY TOKYO 0949
RUEHBY/AMEMBASSY CANBERRA 1363
RUEHBJ/AMEMBASSY BEIJING 4403

UNCLAS JAKARTA 002872

SIPDIS

DEPT FOR EAP/MTS AND EB/ESC/IEC
DEPT PASS OPIC, EXIM, TDA
DOE FOR CUTLER/PI-32 AND GILLESPIE/PI-32
COMMERCE FOR 4430/BERLINGUETTE

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ENRG](#) [EINV](#) [PREL](#) [EFIN](#) [ID](#)

SUBJECT: Chinese Investors Win Power Project Guarantees

1. (SBU) Chinese investors, reportedly with high level backing from Vice President Jusuf Kalla, won full guarantees for power projects under the Government of Indonesia's (GOI) Fast Track electricity building program. Previously, the GOI was only willing to concede vague offers of partial support. In a new presidential regulation issued on September 7 but only made public in the first week in October, the GOI said it would fully guarantee the debt that state electricity company PLN will use to fund the power projects. Our contacts tell us that the Chinese state-owned enterprises and, to a lesser extent, the Japanese Bank for International Cooperation, which will finance 6900 MW of electricity projects, had insisted on the full guarantee.

2. (SBU) The Fast Track program's goal is to bring 10,000 MW of new generation capacity on-line by 2009. It aims to replace high cost diesel generation, which currently accounts for more than 50% of installed capacity, with lower cost coal-fired plants. Announced in January 2006, the Fast Track program attracted few bidders until Vice President Kalla won an internal battle to force the GOI to offer partial guarantees to bidders, according to our contacts. Finance Minister Sri Mulyani had been leading the fight against GOI guarantees, preferring to a market-driven approach and a defined, transparent process for assessing the level of risk the GOI should provide.

3. (SBU) The new regulation (Presidential Regulation 91/2007) amends two articles in a previous regulation (86/2006) that created the Fast Track program. The revised text clearly promises that "the government hereby provides full guarantees of the payment of the liabilities of PLN to creditors that provide funding in the form of bank loans." The previous one said only that "the government may provide guarantees." The new regulation states that Mulyani's Finance Ministry will administer the details of the guarantees through a ministerial decree.

4. (SBU) Chinese interests prevailed after more than a year of lobbying, according to an expat consultant to the Finance Ministry. He said the Chinese played hardball with the GOI after winning contracts for 85% of the Fast Track power projects. A long-time expat electricity analyst told us that PLN welcomes the extra capacity the Fast Track program will bring but the accelerated process precluded them from doing feasibility studies for most of the Chinese projects. In their zeal to respond to the wishes of the Vice President to get extra power on-line before the 2009 election, said our contact, PLN will need to spend extra funds to get these plants hooked into the Java-Bali grid. Proper planning would have allowed them to site the projects close to the existing wheels of

the grid, saving millions on new infrastructure.

HEFFERN